

Message Text

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ACTION EUR-12

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PASS AGRICULTURE ELECTRONICALLY

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC DAIRY MARKET SITUATION

1. SUMMARY: COMMISSION ESTIMATES SHOW STOCKS OF BOTH NFDM AND BUTTER RISING IN 1977 TO OVER 1.3 MILLION TONS AND 450,000 TONS, RESPECTIVELY--DESPITE LARGE DISPOSAL PROGRAMS. SUBSIDIZED SALES OF NFDM FOR PIG AND POULTRY ARE ESTIMATED AT 400,000 TONS IN 1977. THERE NOW APPEARS TO BE WIDESPREAD EXPECTATION THAT SUCH SALES FORM A PERMANENT PART OF THE EC'S DAIRY PROGRAM OVER THE NEXT 3-5 YEARS. FURTHER EC BUTTER EXPORTS TO THE USSR OF PERHAPS 10,000 - 15,000 TONS SEEM LIKELY. END SUMMARY.

2. AN OFFICIAL IN THE COMMISSION'S DAIRY DIVISION GAVE US THE COMMISSION'S LATEST ESTIMATES OF THE SUPPLY AND DEMAND BALANCES FOR NFDM AND BUTTER. THESE BALANCES ARE SHOWN

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BELOW. THEY WERE MADE ON THE ASSUMPTION OF NORMAL WEATHER CONDITIONS AND OF NO CHANGE IN EC PRODUCER PRICES. HOWEVER, THE OFFICIAL SAID THAT HE DID NOT FEEL THAT THE RELATIVELY SMALL PRICE INCREASES AGREED ON FOR 1977/78 WOULD MAKE MUCH DIFFERENCE IN THE MARKET SITUATION. DESPITE LARGE DISPOSAL PROGRAMS, THE COMMISSION EXPECTS ENDING STOCKS OF NFDM--AT OVER 1.3 MILLION TONS--TO BE HIGHER THAN STOCKS AT THE

BEGINNING OF THE YEAR. THE BUTTER SITUATION IS EVEN WORSE--
AN INCREASE OF NEARLY 200,000 TONS IN BUTTER STOCKS IS
PREDICTED FOR 1977.

3. WITH RESPECT TO THE OVERALL SITUATION IN THE DAIRY
MARKET, THE OFFICIAL MADE A NUMBER OF INTERESTING POINTS.
HE SAID THAT CURRENTLY DAIRY OVERPRODUCTION IN THE COMMUNITY
IS ON THE ORDER OF 10 PERCENT, EQUIVALENT TO THE PRODUCTION OF
ABOUT 2 MILLION COWS. HE SAID THAT THE COMMUNITY WAS NOW AIMING
TO BALANCE THIS SITUATION BY DECREASING PRODUCTION BY ABOUT 5
PERCENT AND INCREASING CONSUMPTION BY 5 PERCENT. HE ESTIMATED THAT
THE NEW EC PROGRAMS PROVIDING PREMIUMS FOR THE NON-MARKETING
OF MILK, HERD CONVERSION AND THE SLAUGHTER OF DISEASED
CATTLE --THE CORE OF THE EC EFFORT TO REDUCE PRODUCTION--
WOULD REDUCE THE EC DAIRY HERD BY 1 TO 1.2 MILLION COWS.
HE SAID THAT IT WOULD TAKE AT LEAST 5 YEARS FOR THE COMMUNITY
TO ESTABLISH MARKET EQUILIBRIUM IN THE MANNER DESCRIBED ABOVE.
HOWEVER, HE WAS NOT OPTIMISTIC THAT THIS WOULD BE ACHIEVED.
PERSONALLY, HE SAID HE WOULD BE HAPPY IF THE SITUATION ISN'T
WORSE AFTER 5 YEARS.

4. HE SAID THAT THE COST OF THE DAIRY SECTOR TO THE EC
BUDGET IN 1977 WOULD BE CONSIDERABLY MORE THAN THE 2 BILLION
U.A. NOW APPROPRIATED. HE FELT THAT AN ADDITIONAL COST OF
500 MILLION U.A. WAS NOT UNREASONABLE.

5. NFDM BALANCE.

1976 1977

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BEGINNING STOCKS

PUBLIC	1,113	1,134
PRIVATE (NOT PIPELINE)	17	111
TOTAL	1,130	1,245
PRODUCTION	2,100	2,250
IMPORTS	0	0
TOTAL AVAILABILITY	3,230	3,495
CONSUMPTION AT MARKET PRICE	210	200
CALF FEED	1,200	1,250

PIG AND POULTRY FEED	400	400
TOTAL DOMESTIC CONSUMPTION	1,800	1,850
COMMERCIAL EXPORTS	90	175
FOOD AID	95 (1)	150
TOTAL EXPORTS	185	325
END STOCKS	1,200	1,320

(1) INCLUDES 15,000 TONS AT SPECIALLY REDUCED PRICES.

REGARDING THE ABOVE BALANCE, THE OFFICIAL NOTED THAT (A) 100,000 TONS OF 1977 COMMERCIAL EXPORTS WERE EXPECTED TO BE FOR FEED USE, (B) THE 1976 DROUGHT LAST YEAR HAD REDUCED NFDM LIMITED OFFICIAL USE

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PRODUCTION BY 150,000 TONS, (C) THE CHANGES MADE BY THE EC IN ITS SUBSIDY PROGRAM FOR THE FEEDING OF NFDM TO CALVES (I.E., INTRODUCTION OF A 60 PERCENT MINIMUM INCORPORATION RATE WERE ESTIMATED TO HAVE RESULTED IN AN ADDITIONAL USAGE OF 150,000 TONS IN 1976.

6. THE OFFICIAL EXPECTED SALES OF NFDM FOR PIG AND POULTRY FEED TO BECOME A PERMANENT FEATURE OF EC DAIRY POLICY OVER THE NEXT 3-5 YEARS. HE ANTICIPATED THAT 400,000 - 600,000 TONS OF NFDM WOULD BE SOLD ANNUALLY AT SUBSIDIZED PRICES UNDER SUCH PROGRAMS OVER THIS PERIOD. WHILE WE HEAR DIFFERING VIEWS FROM COMMISSION OFFICIALS AND PERMEDELS AS TO THE FUTURE IMPORTANCE OF THESE PROGRAMS, THE PREVAILING VIEW NOW SEEMS TO BE THAT LARGE QUANTITIES WILL BE DISPOSED OF IN THIS MANNER OVER THE NEXT FEW YEARS. THE HIGH COST OF THESE PROGRAMS DOES NOT SEEM TO BE REGARDED AS A SERIOUS CONSTRAINT ON THEIR USE.

7. BUTTER BALANCES.

	1976	1977
BEGINNING STOCKS	164	260
PRODUCTION	1,750	1,870
IMPORTS	130	130
TOTAL AVAILABILITY	2,044	2,260
CONSUMPTION AT FULL MARKET		

PRICES 1,531 1,500

SPECIAL SALES 113 100

TOTAL DOMESTIC CONSUMPTION 1,644 1,600

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COMMERCIAL EXPORTS 95 150

FOOD AID 45 60

TOTAL EXPORTS 140 210

CLOSING STOCKS 260 450

THE OFFICIAL SEEMED TO BE OBLIQUELY IMPLYING THAT THE 150,000 TONS EXPORT ESTIMATE FOR 1977 INCLUDED ADDITIONAL SALES TO THE USSR, BUT HE WOULD NOT GIVE A CLEAR ANSWER ON THIS POINT. IN PRESS STATEMENTS MADE AT THE CONCLUSION OF THE APRIL 25-26 COUNCIL MEETINGN COMMISSIONER GUNDELACH INDICATED THAT THE COMMUNITY WOULD CONSIDER ADDITIONAL EXPORTS OF BUTTER TO THE USSR OF PERHAPS 10,000 - 15,000 TONS.

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